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C O N F I D E N T I A L SECTION 01 OF 04 TOKYO 002058

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SUBJECT: WHA A/S SHANNON'S APRIL 11 MEETING WITH METI DG  
KITAMURA

REF: A. TOKYO 2008

[1](#)B. TOKYO 1960

[1](#)C. TOKYO 1959

Classified By: Deputy Chief of Mission Joe Donovan. Reason: 1.4 (b)(d)

[1](#)1. (SBU) Summary: Japan is happy with the results of its free trade agreement (FTA) with Mexico and expects rapid progress in FTA negotiations with Chile, METI Trade Policy DG Kitamura told WHA A/S Shannon April 11. Little enthusiasm for a trade deal with Brazil and its MERCOSUR partners exists in Japan, however. Japan remains concerned over competition with China for minerals, energy and food in Latin American and is dissatisfied with the failure of the Latin members of APEC to take an active role in the issues of most interest to Japan. End summary.

Japan-Mexico FTA: Success for Both Countries  
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[1](#)2. (SBU) The free trade agreement between Japan and Mexico has been a "very positive achievement," according to Japan's Ministry of Economy, Trade, and Industry METI Trade Policy

Director General Toshiaki Kitamura. In an April 11 meeting with WHA Assistant Secretary Thomas Shannon, Kitamura noted that the genesis of the Japan-Mexico agreement had been a finding by Japanese industry that Japan had been losing approximately JPY 600 billion (USD 5.0 billion at current exchange rates) in sales because of the lack of a free trade arrangement with Mexico. Nevertheless, the fact that Mexico's main exports to Japan would be agricultural products still resulted in difficult negotiations as Japan's farm sector sought protection from Mexican competition. The positive effect of the final agreement on trade, Kitamura stressed, had been obvious. He provided statistics indicating that in the April-December 2005 period (i.e., from the beginning of the Japanese fiscal year through the end of the calendar year) Japan's exports to Mexico had grown 37 percent in comparison to the same period a year earlier. Similarly, imports from Mexico had risen 23 percent in the same timeframe.

#### Agreement Expected with Chile by Yearend

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13. (SBU) Although FTA negotiations with Chile had only started in February of this year, Japan expected to conclude an agreement by the year's end, according to Kitamura. He cited Chile's substantial experience in FTA negotiations and the fact that Chile's agricultural exports were relatively limited as the reasons for the expected rapid progress. Kitamura indicated that Chile exports a significant amount of salmon to Japan but did not seem concerned that trade in that commodity could derail progress in the negotiations. Chile,

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he reiterated, has "experience and good sense." A/S Shannon also noted that the United States had also had a good experience in its FTA with Chile.

14. (C) Another factor behind the rapid progress in the Japan-Chile negotiations is that the Japanese ambassador to Chile is a former politician from the ruling Liberal Democratic Party (LDP), Kitamura observed. This has meant that the proposed Japan-Chile agreement has received a degree of support from the Japanese political leadership rarely seen. Kitamura indicated this political impetus to pursue FTA negotiations with Chile was stronger than any pressure from Japan's business community, which, unlike the case with Mexico, had not been significant. (Note: Japanese Ambassador to Chile Hajima Ogawa previously served as an LDP member of Japan's Lower House representing the fourth district of Nagano Prefecture from 1986 to 2000. From 1982 to 1986, he was a secretary to leading LDP politician (and subsequently Prime Minister) Kiichi Miyazawa. Prior to that time, he had been an executive in Mitsubishi Corporation's Brazilian subsidiary. End note.)

#### Brazil: No Enthusiasm, No Need

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15. (C) Asked whether there were other possible FTA candidates in Latin America that Japan was considering, Kitamura said some thought been given to Brazil and the MERCOSUR countries. He cited three reasons, however, that negotiations with Brazil were unlikely. First, the Brazilians themselves seemed uninterested in an agreement with Japan. Second, the Japanese, in contrast to the situation with Mexico, did not perceive any tangible economic disadvantage in not having an agreement with Brazil. Finally, Japan, Kitamura noted, already had a number of very active economic exchanges with Brazil so that an additional framework in the form of an FTA or an "economic partnership agreement" did not seem necessary. As an example of those exchanges, Kitamura added that the Brazilian Commerce Minister had been to METI the previous day to discuss the possibility of Brazil exporting ethanol to Japan.

16. (SBU) Kitamura believed that Japanese economic

involvement in Latin America, particularly major economies such as Chile and Brazil, would increase gradually. Trade Policy Deputy Director General Akira Miwa, who accompanied Kitamura to the meeting, noted that Japanese companies, often using Japan-supplied loans, had invested in large projects in Brazil during the 1960s and 1970s but stopped doing so first because of political instability in Brazil during the 1980s and then because of the collapse of Japan's economic "bubble" in the 1990s.

#### Energy: Latin America Not Part of Japan's Strategy

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17. (C) Kitamura asked whether securing energy supplies figured in the U.S. selection of its FTA partners. A/S Shannon replied that, with the exception of Mexico, the U.S. had not concluded FTAs with the main energy producers in Latin America. (NAFTA has no energy chapter.) Kitamura indicated that, in contrast, energy had figured prominently in Japan's thinking and lay behind its efforts to conclude economic partnership agreements with both Indonesia and the Gulf Cooperation Council countries. Nevertheless, energy was not yet part of Japan's plans vis-a-vis Latin America. Generally, the Japanese Government would provide financing to Japanese companies looking to invest in oil and gas projects overseas as a way of helping to secure energy resources. Deputy Director General Miwa indicated this had been the case with respect to Japanese investment in the Brazilian oil company Petrobras, where the Brazilian government, looking to counterbalance U.S. and European interests, had invited Japanese participation (which received Japan's financial support).

#### China: Latin America Gets Less Than It Hoped

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18. (C) Noting that A/S Shannon was on his way to China for consultations, Kitamura asked whether the U.S. believed China was only interested in Latin America as a supplier of commodities. A/S Shannon agreed that this was the case and stressed that China, in its dealings with Latin American countries, had been very careful not to present itself as a strategic counterweight to the United States in the region -- much to the disappointment of some in Latin America. The economic benefits of closer relations with China had also been less than expected. Kitamura commented that China's single-minded pursuit of minerals, energy and food in Latin America and elsewhere, often without a sound economic basis, had been a destructive force in the international marketplace. It was important, he stressed, that the Chinese be made to understand that their behavior in this regard did not conform to international norms.

#### APEC: Latins on the Sidelines in the Duel with China

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19. (SBU) Turning to the role of the Latin American economies in APEC, A/S Shannon noted that the United States hoped to utilize APEC to inject some of Asia's economic dynamism and openness in the traditionally more insular Latin countries. Kitamura expressed surprise at Shannon's explanation of the contribution of APEC to Latin America and said that he had not considered the importance of APEC in this regard. He commented that, in Japan's view, the Latin American economies in APEC have done little to advance the issues of main interest to Japan within the organization. He stressed that Japan saw APEC primarily as a means to engage

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and to encourage China with respect to rule-based international systems in areas such as intellectual property rights, investment protection, and export controls. The

Latin American members of APEC, however, had seemed interested only in developing business ties with Asia and had been largely silent on the substantive issues on the APEC agenda. Deputy Director General Akira Miwa added that the extent of Latin American interest in APEC will become clearer when Peru chairs the forum in 2008.

¶10. (U) Assistant Secretary Shannon cleared this message.  
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